

Indiana State Teachers' Retirement Fund

Annual Actuarial Valuation

as of June 30, 2007

Alliance Benefit Group

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June 10, 2008

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The Board of Trustees
Indiana State Teachers' Retirement Fund
Indianapolis, IN

Dear Board Members:

Submitted in this report are the results of the June 30, 2007 actuarial valuation of the Indiana State Teachers' Retirement Fund.

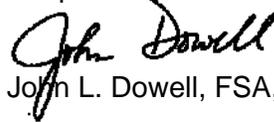
The member census data and the asset information for this valuation were furnished by your Chief Financial Officer and Staff. Their efforts and cooperation in furnishing these materials are acknowledged with appreciation. We did not audit the information provided, but we did review it thoroughly for reasonableness and compared it with the prior year's submission for consistency.

The actuarial assumptions were adopted by the Board pursuant to the Experience Study dated August 14, 2003 and covering the period July 1, 1996 to June 30, 2002. That study was conducted by the prior actuary at Gabriel Roeder Smith & Company. Assumptions are summarized in the Assumptions and Methods section of this report.

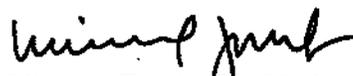
Your attention is directed to the Comments on page 1 and the Summary of Key Valuation Results on page 2.

The valuation was completed under the supervision of a Member of the American Academy of Actuaries with significant experience in valuing employee retirement systems, and was prepared using generally accepted actuarial principles and in accordance with standards of practice prescribed by the Actuarial Standards Board. To the best of our knowledge, this report is complete and accurate and the actuarial methods and assumptions produce results that are reasonable.

Respectfully submitted,



John L. Dowell, FSA, EA, MAAA



Michael Zurek, EA, MAAA

JD/lmw

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Comments

Contribution Rates

Page 10 shows the calculated contribution rate for the 1996 Account. That rate is determined as if the 1996 Account were a stand-alone plan.

Since the Pre-1996 Account is funded on a pay-as-you-go-basis, only the expected benefit payments are shown on page 10. A similar normal cost plus UAL amortization contribution rate was calculated for the Pre-1996 Account and the two rates have been combined to determine the Annual Required Contribution disclosed on page 12.

Plan Provisions

The ad-hoc COLA effective January 1, 2007 pursuant to IC 5-10.2-5-41 was included in the census information provided to us. Any additional COLA, including the increase pursuant to IC 5-10.2-5-42, is estimated by an ongoing assumption of 1.5% annual increases in all pension payments. We are not aware of any other changes in the plan provisions since the June 30, 2006 actuarial valuation.

Census Data

Census data for the valuation was provided by ISTRF. We have thoroughly examined the data for reasonableness and consistency with prior years, but we did not otherwise audit it.

Change in Assumptions

ISTRF has granted retirees ad-hoc COLAs on a regular basis. In accordance with recent legislation, the ISTRF is required to account for future COLAs in reported liabilities. In the past, COLAs have averaged 1.5% per year. Whether or not COLAs will be paid at levels similar to the past depends on the financial situation of ISTRF each year. Beginning with the June 30, 2005 valuation, an assumption to account for future ad-hoc permanent COLAs was implemented pursuant to the requirements of the Indiana Code that states that the Board must consult with the actuary and the budget agency before determining the COLA assumption. The June 30, 2007 valuation reflects a future compound COLA assumption of 1.5%, as adopted by the Board.

Several of the actuarial assumptions are based on a plan experience study completed by Gabriel Roeder Smith & Company. A similar study will be conducted in 2008. The results of that study will likely be reflected in the June 30, 2008 valuation assumptions.

Investment Experience

Investment experience for the year ended June 30, 2007 was excellent. The market value rate of return was 15.7%. Under the asset valuation method, market gains and losses are spread over a four-year period. The Market Value of Assets now exceeds the Funding Value by \$504 million, providing significant cushion against potential future losses.

Challenges

The 1996 Account has been steadily funded since its inception. As membership in that portion of the plan increases, the amount of required contributions will increase as a dollar amount, but should remain relatively stable as a percentage of covered payroll with plan experience causing gradual changes. The primary funding challenge will be for the State to meet the projected pay-as-you-go obligations as shown on pages 24 to 25 for the Pre-1996 Account.

Summary of Key Valuation Results

	6/30/2007			6/30/2006
	Pre-1996 Account	1996 Account	Total	
Member Information				
Number				
Active Members	36,526	39,307	75,833	73,350
Vested Inactive Members	3,861	1,160	5,021	5,303
Nonvested Inactive Members	12,714	25,690	38,404	32,912
Retired Members and Beneficiaries	<u>39,328</u>	<u>1,925</u>	<u>41,253</u>	<u>39,849</u>
Total	92,429	68,082	160,511	151,414
Active Payroll	\$ 2,376,389,845	\$ 1,891,605,321	\$ 4,267,995,166	\$ 3,802,721,220
Annual Benefit Payments				
Annuity	\$ 81,398,004	\$ 3,670,188	\$ 85,068,192	\$ 81,233,016
Pension	<u>576,898,596</u>	<u>33,342,792</u>	<u>610,241,388</u>	<u>568,799,400</u>
Total	\$ 658,296,600	\$ 37,012,980	\$ 695,309,580	\$ 650,032,416
Assets and Liabilities				
Accrued Liability				
ASA Account Balance	\$ 2,840,180,829	\$ 618,611,500	\$ 3,458,792,329	\$ 3,453,881,159
ASA Annuities	758,610,462	34,763,819	793,374,281	766,168,333
Pension	<u>12,389,467,864</u>	<u>2,174,178,461</u>	<u>14,563,646,325</u>	<u>13,145,522,640</u>
Total	\$ 15,988,259,155	\$ 2,827,553,780	\$ 18,815,812,935	\$ 17,365,572,132
Market Value of Assets				
ASA Account Balance	\$ 3,016,052,518	\$ 656,917,599	\$ 3,672,970,117	\$ 3,500,941,966
ASA Annuities	891,017,973	40,831,480	931,849,453	769,298,463
Pension	<u>2,199,283,884</u>	<u>2,176,690,545</u>	<u>4,375,974,429</u>	<u>3,521,183,403</u>
Total	\$ 6,106,354,375	\$ 2,874,439,624	\$ 8,980,793,999	\$ 7,791,423,832
Funding Value of Assets				
ASA Account Balance	\$ 2,846,713,484	\$ 620,034,358	\$ 3,466,747,842	\$ 3,453,881,159
ASA Annuities	840,990,952	38,538,959	879,529,911	758,957,302
Pension	<u>2,075,803,074</u>	<u>2,054,478,259</u>	<u>4,130,281,333</u>	<u>3,473,850,504</u>
Total	\$ 5,763,507,510	\$ 2,713,051,576	\$ 8,476,559,086	\$ 7,686,688,965
Unfunded Accrued Liability				
ASA Account Balance	\$ (6,532,655)	\$ (1,422,858)	\$ (7,955,513)	\$ 0
ASA Annuities	(82,380,490)	(3,775,140)	(86,155,630)	7,211,031
Pension	<u>10,313,664,790</u>	<u>119,700,202</u>	<u>10,433,364,992</u>	<u>9,671,672,136</u>
Total	\$ 10,224,751,645	\$ 114,502,204	\$ 10,339,253,849	\$ 9,678,883,167
Funded Percentage				
ASA Account Balance	100.2%	100.2%	100.2%	100.0%
ASA Annuities	110.9%	110.9%	110.9%	99.1%
Pension	<u>16.8%</u>	<u>94.4%</u>	<u>28.4%</u>	<u>26.4%</u>
Total	36.1%	95.9%	45.1%	44.3%
Annual Costs				
Pension Normal Cost	\$ 171,479,555	\$ 108,607,821	\$ 280,087,376	
Calculated Employer Contribution				
Rate - 1996 Account Only				
Normal Cost		5.74%		6.65%
Amortization of Unfunded Liability		<u>0.30%</u>		<u>0.49%</u>
Total		6.04%		7.14%
Actual Employer Contribution				
Rate - 1996 Account Only				
		7.00%		7.25%
Pre-1996 Account Only				
	Fiscal 2009			Fiscal 2008
Pension Benefit Payments	686,400,000			645,000,000
Pension Contributions	688,000,000			651,000,000

Unfunded Accrued Liability

Pre-1996 Account

\$ millions

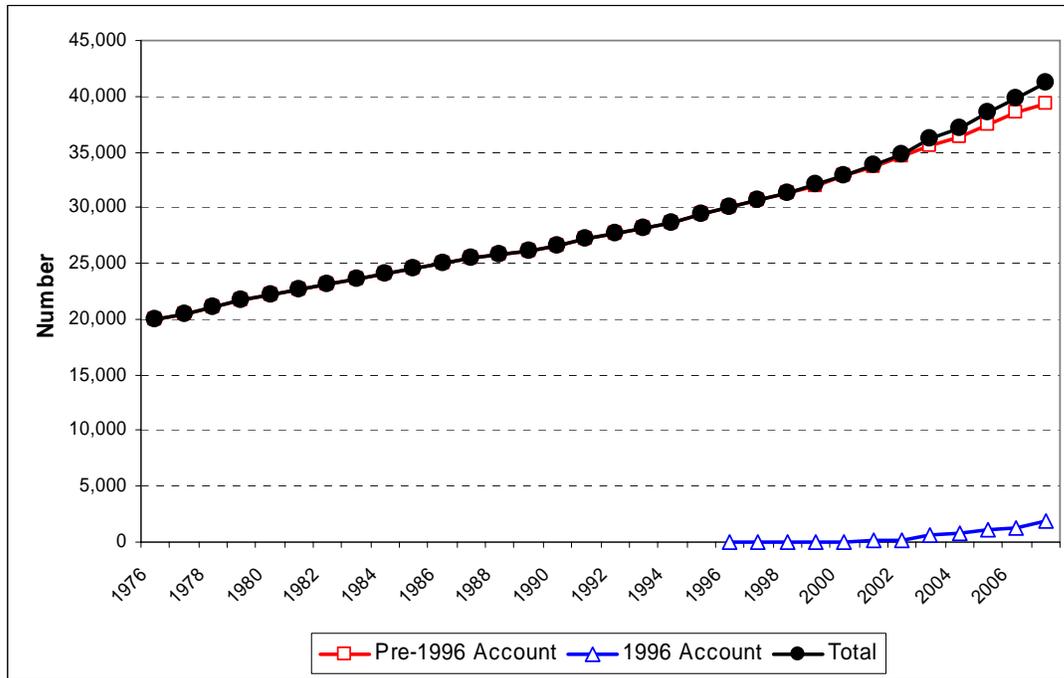
June 30	Accrued Liability	Funding Value of Assets	Unfunded Accrued Liability	Funded Percentage
1975	\$ 1,570	\$ 312	\$ 1,258	19.9%
1980	2,843	539	2,304	19.0%
1985	4,023	1,073	2,950	26.7%
1991	7,182	2,161	5,021	30.1%
1992	7,949	2,376	5,573	29.9%
1993	8,508	2,592	5,916	30.5%
1994	9,087	2,809	6,278	30.9%
1995	9,675	2,984	6,691	30.8%
1996	10,283	3,242	7,041	31.5%
1997	10,868	3,678	7,190	33.8%
1998	11,481	4,130	7,351	36.0%
1999	12,173	4,731	7,442	38.9%
2000	12,409	5,210	7,199	42.0%
2001	12,696	5,363	7,333	42.2%
2002	13,498	5,555	7,943	41.2%
2003	13,355	5,728	7,627	42.9%
2004	13,549	5,765	7,784	42.5%
2005	14,254	5,797	8,457	40.7%
2006	15,003	5,478	9,525	36.5%
2007	15,988	5,764	10,224	36.1%

1996 Account

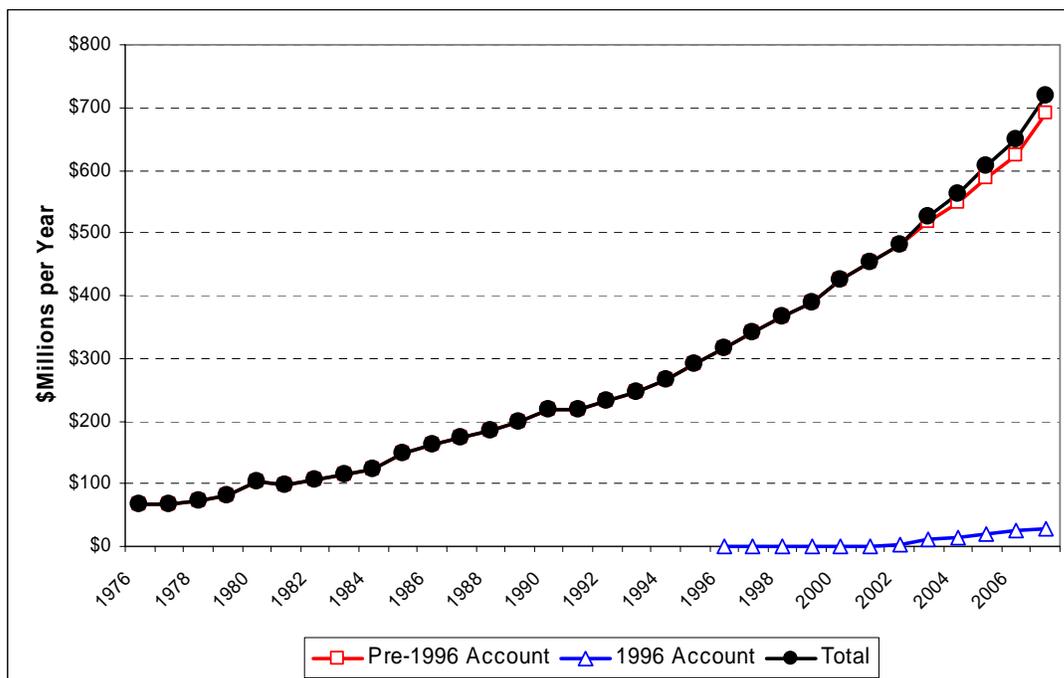
\$ millions

June 30	Accrued Liability	Funding Value of Assets	Unfunded Accrued Liability	Funded Percentage
1996	\$ 48	\$ 21	\$ 27	43.8%
1997	176	72	104	40.9%
1998	298	136	162	45.6%
1999	498	240	258	48.2%
2000	706	368	338	52.1%
2001	828	447	381	54.0%
2002	1,167	621	546	53.2%
2003	1,392	826	566	59.3%
2004	1,649	1,039	610	63.0%
2005	2,011	1,268	743	63.1%
2006	2,363	2,209	154	93.5%
2007	2,828	2,713	115	95.9%

Retired Members and Beneficiaries Receiving Benefits



Total Retirement Allowances Being Paid



Active Member Data

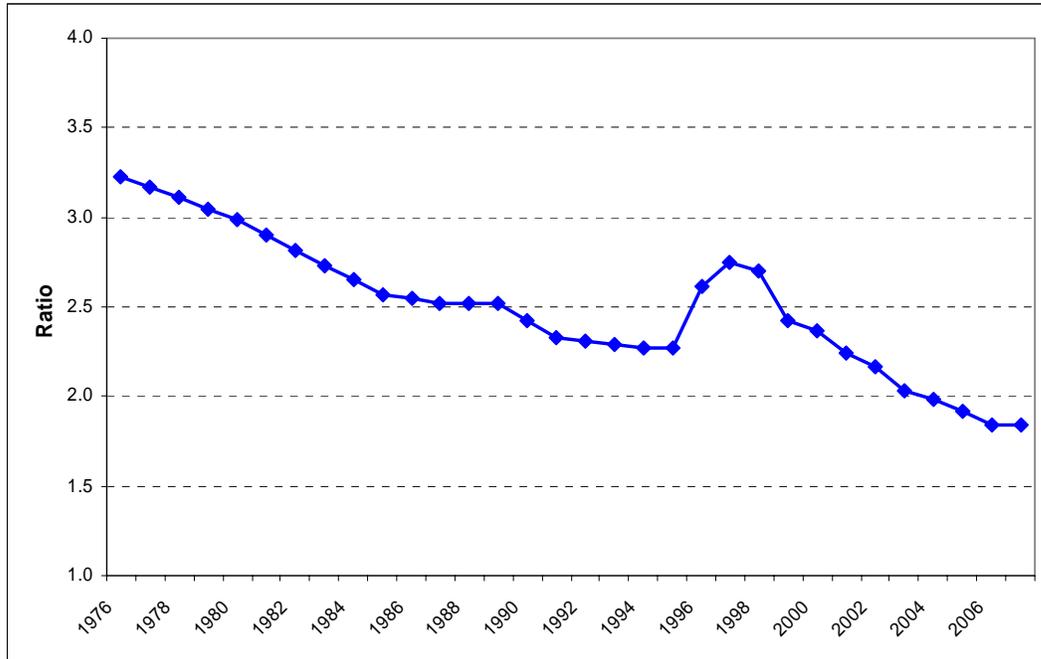
Pre-1996 Account

June 30	Number	Valuation Payroll (\$000s)	Average			
			Age	Service	Pay Increase %	
1975	63,932	\$ 749,200	38.7	10.9	\$ 11,719	
1980	66,575	1,107,699	39.7	11.9	16,638	
1985	62,932	1,519,887	41.5	14.2	24,151	
1987	64,157	1,751,709	42.0	14.5	27,303	
1989	65,986	2,044,797	42.6	14.9	30,988	
1991	63,373	2,278,715	43.0	15.4	35,957	
1992	63,980	2,416,263	43.8	16.0	37,766	5.0%
1993	64,594	2,536,165	44.0	16.1	39,263	4.0
1994	65,209	2,614,915	44.1	16.2	40,101	2.1
1995	66,542	2,728,811	44.2	16.2	41,009	2.3
1996	70,183	2,805,823	44.2	15.7	39,979	(2.5)
1997	63,520	2,739,436	45.4	16.9	43,127	7.9
1998	59,030	2,699,183	46.4	18.0	45,726	6.0
1999	56,560	2,755,489	47.4	19.3	48,718	6.5
2000	52,920	2,561,533	48.2	20.1	48,404	(0.6)
2001	50,802	2,564,451	48.7	20.7	50,479	4.3
2002	47,510	2,604,956	49.4	21.5	54,830	8.6
2003	43,705	2,448,271	49.6	21.7	56,018	2.2
2004	41,510	2,384,480	50.1	22.2	57,444	2.5
2005	39,097	2,305,726	50.6	22.7	58,974	2.7
2006	36,994	2,237,380	51.1	23.2	60,480	2.6
2007	36,526	2,376,390	52.1	23.8	65,060	7.6

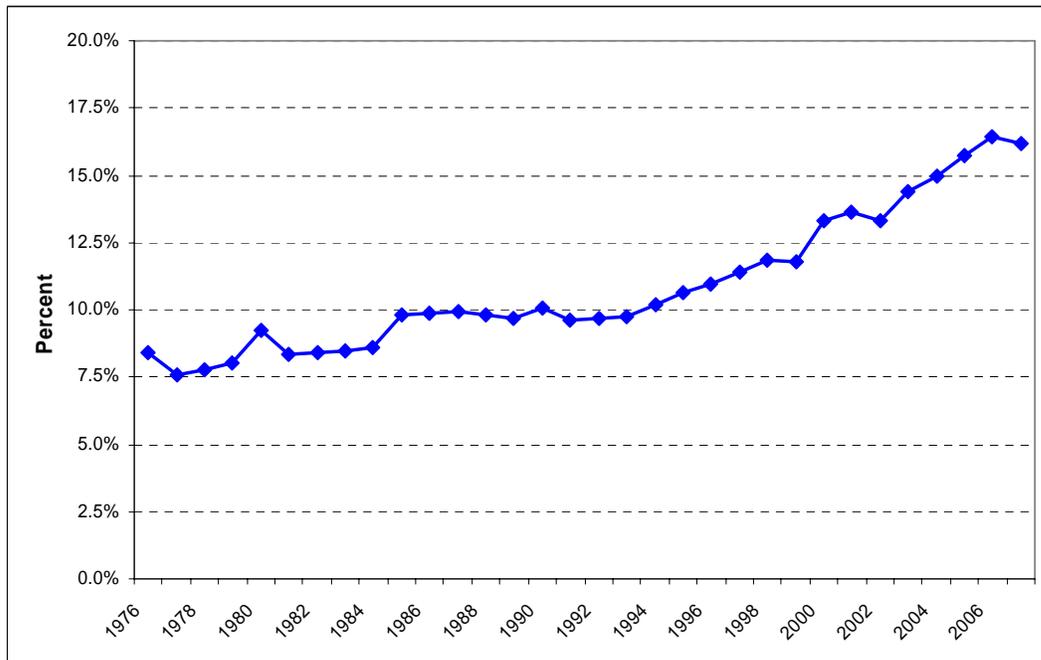
1996 Account

June 30	Number	Valuation Payroll (\$000s)	Average			
			Age	Service	Pay Increase %	
1996	8,683	\$ 72,506	32.2	1.3	\$ 8,350	
1997	20,686	245,168	33.0	1.8	11,852	41.9%
1998	25,634	395,758	33.6	2.2	15,439	30.3
1999	21,185	538,837	35.3	4.0	25,435	64.7
2000	24,950	631,072	36.4	4.7	25,293	(0.6)
2001	24,846	754,426	36.3	5.5	30,364	20.0
2002	27,873	1,004,515	36.7	6.1	36,039	18.7
2003	29,936	1,136,864	37.0	6.5	37,976	5.4
2004	32,000	1,267,173	37.3	6.9	39,599	4.3
2005	34,826	1,428,604	37.5	7.2	41,021	3.6
2006	36,356	1,565,341	37.7	7.5	43,056	5.0
2007	39,307	1,891,605	38.2	7.8	48,124	11.8

Active Members per Retired Life



Total Retirement Allowances as a Percent of Valuation Payroll



Reconciliation of Market Value of Assets

	<u>6/30/2006 thru 6/30/2007</u>	<u>6/30/2005 thru 6/30/2006</u>
Market Value, beginning of year	\$ 7,791,423,831	\$ 7,179,715,874
Member Contributions	126,194,680	130,496,002
Employer Contributions	753,039,657	701,340,085
Benefit Payments	(910,577,681)	(789,275,978)
Transfers	<u>3,803,697</u>	<u>3,608,120</u>
Non-Investment Net Cash Flow	\$ (27,539,647)	\$ 46,168,229
Plan Expenses	\$ (6,521,555)	\$ (6,749,971)
Investment Return	<u>1,223,431,370</u>	<u>572,289,699</u>
Net Investment Return	\$ 1,216,909,815	\$ 565,539,728
Market Value, end of year	\$ 8,980,793,999	\$ 7,791,423,831
Market Value Net Rate of Return	15.7%	7.9%

Development of the Funding Value of Assets

	<u>6/30/2006 thru 6/30/2007</u>
1. Funding Value, beginning of year	\$ 7,686,688,965
2. Market Value, beginning of year	7,791,423,831
3. Market Value, end of year	8,980,793,999
4. Non-Investment Net Cash Flow	(27,539,647)
5. Net Investment Return	
a. Expected $[(.075 \times ((2)+0.5(4))]$	583,324,051
b. Actual $[(3) - (2) - (4)]$	<u>1,216,909,815</u>
6. Current Year Market Value Gain/(Loss) $[(5b) - (5a)]$	\$ 633,585,764
7. Deferred Recognition of Investment Gain/(Loss)	
a. Fiscal 2007 (75% of (6))	\$ 475,189,323
b. Fiscal 2006 (50%)	16,955,479
c. Fiscal 2005 (25%)	<u>12,090,111</u>
d. Total $[(a) + (b) + (c)]$	\$ 504,234,913
8. Preliminary Funding Value, end of year $[(3) - (7d)]$	8,476,559,086
a. 80% of Market Value, end of year $[80\% \text{ of } (3)]$	7,184,635,199
b. 120% of Market Value, end of year $[120\% \text{ of } (3)]$	10,776,952,799
9. Funding Value, end of year $[(8), \text{ but not Greater than } 8(b), \text{ nor Less than } (8a)]$	\$ 8,476,559,086
10. Funding Value as a % of Market Value $[(9) / (3)]$	94.3854%
11. Net Investment Return on Funding Value $[(9) - (1) - (4)]$	\$ 817,409,768
12. Funding Value Net Rate of Return $[(11) / ((1) + 0.5(4))]$	10.7%

Asset and Liability Allocation

Market Value of Assets Allocation

	Pre-1996 Account	1996 Account	Total
Member			
Active and Inactive	\$ 3,016,052,518	\$ 656,917,599	\$ 3,672,970,117
Retired	<u>891,017,973</u>	<u>40,831,480</u>	<u>931,849,453</u>
Total Member	\$ 3,907,070,491	\$ 697,749,079	\$ 4,604,819,570
Employer			
Active and Inactive	\$ 0	\$ 1,898,732,364	\$ 1,898,732,364
Retired			
Pension Stabilization Fund	\$ 1,880,110,945	\$ 0	\$ 1,880,110,945
Other	<u>319,172,939</u>	<u>277,958,181</u>	<u>597,131,120</u>
Total	\$ 2,199,283,884	\$ 277,958,181	\$ 2,477,242,065
Total Employer	\$ 2,199,283,884	\$ 2,176,690,545	\$ 4,375,974,429
Total	\$ 6,106,354,375	\$ 2,874,439,624	\$ 8,980,793,999

Unfunded Accrued Liability Allocation

	Pre-1996 Account	1996 Account	Total
Retired Members and Beneficiaries			
Accrued Liability	\$ 7,063,889,376	\$ 449,452,159	\$ 7,513,341,535
Funding Value of Assets*	<u>2,916,794,026</u>	<u>300,890,923</u>	<u>3,217,684,949</u>
Unfunded Accrued Liability	\$ 4,147,095,350	\$ 148,561,236	\$ 4,295,656,586
Active and Inactive Members			
Accrued Liability	\$ 8,924,369,779	\$ 2,378,101,621	\$ 11,302,471,400
Funding Value of Assets*	<u>2,846,713,484</u>	<u>2,412,160,653</u>	<u>5,258,874,137</u>
Unfunded Accrued Liability	\$ 6,077,656,295	\$ (34,059,032)	\$ 6,043,597,263
Total			
Accrued Liability	\$ 15,988,259,155	\$ 2,827,553,780	\$ 18,815,812,935
Funding Value of Assets*	<u>5,763,507,510</u>	<u>2,713,051,576</u>	<u>8,476,559,086</u>
Unfunded Accrued Liability	\$ 10,224,751,645	\$ 114,502,204	\$ 10,339,253,849

* Funding Value of Assets is 94.3854% of Market Value of Assets and is allocated between actives/retirees and Pre-96/Post-96 in same proportion as Market Value shown above.

Calculated Employer Contribution Rate

1996 Account

	6/30/2007	% of Projected Payroll for Fiscal 2008	Projected Employer Contribution for Fiscal 2009
Normal Cost	\$ 108,607,821	5.74%	
Amortization of Unfunded Accrued Liability			
Unfunded Accrued Liability	\$ 114,502,204		
Amortization Factor (30-years, level % of pay)	20.5040		
Amortization Payment	\$ 5,584,384	0.30%	
Calculated Employer Contribution Rate	\$ 114,192,205	6.04%	\$ 119,000,000

- The dollar contribution, based on calculated rates, is a projection to the 2009 fiscal year at the 4.5% payroll growth rate assumption and is provided for illustrative purposes.
- The calculated contribution rate for the 1996 Account is determined as if it were a stand-alone plan.

Pre-1996 Account

Expected Pension Benefit Payments	\$ 645,000,000	\$ 686,400,000
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- The Pre-1996 Account is funded on a pay-as-you-go basis. The figures shown above reflect the expected pension payments to be made during fiscal year 2008 and fiscal year 2009.
- Although not shown here, a Pre-1996 Account normal cost plus UAL amortization was calculated and has been reflected on page 12.

GASB Statements No. 25 and No. 27

Required Supplementary Information

Under the Governmental Accounting Standards Board (GASB) Statements No. 25 and No. 27, certain information about the plan is required to be disclosed. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2007
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Pay
Amortization Period	30 Years
Asset Valuation Method	4-Year Smoothed Market Value with Corridor
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Pay Increases	4.75% - 15.50% (includes 4.5% wage inflation)
Cost-of-Living Adjustments	1.5% Compounded Annually on Pension Portion

Membership in the plan consisted of the following at June 30, 2007, the date of the latest actuarial valuation:

	<u>2007</u>
Retired Members and Beneficiaries Receiving Benefits	41,253
Terminated Plan Members Entitled to but Not Yet Receiving Benefits	
Vested	5,021
Non-Vested	38,404
Active Plan Members	<u>75,833</u>
Total	160,511

GASB Statements No. 25 and No. 27

Required Supplementary Information

Schedule of Funding Progress

Valuation Date June 30	Funding Value of Assets (a)	Entry Age Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAL as a % of Covered Payroll [(b) - (a)] / (c)
1996	\$ 3,262,619,379	\$ 10,330,788,316	\$ 7,068,168,937	31.6%	\$ 2,878,329,486	245.6%
1997	3,750,138,439	11,044,660,156	7,294,521,717	34.0	2,984,603,913	244.4
1998	4,266,312,063	11,780,174,095	7,513,862,032	36.2	3,094,940,606	242.8
1999	4,970,720,334	12,670,924,443	7,700,204,109	39.2	3,294,326,130	233.7
2000	5,578,046,785	13,115,065,443	7,537,018,658	42.5	3,192,604,492	236.1
2001	5,810,759,564	13,523,825,973	7,713,066,409	43.0	3,318,877,027	232.4
2002	6,176,574,529	14,664,661,236	8,488,086,707	42.1	3,609,470,436	235.2
2003	6,554,364,927	14,747,339,056	8,192,974,129	44.4	3,585,134,913	228.5
2004	6,804,394,627	15,197,925,988	8,393,531,361	44.8	3,651,653,125	229.9
2005	7,065,299,476	16,264,893,444	9,199,593,968	43.4	3,734,329,113	246.4
2006	7,686,688,965	17,365,572,132	9,678,883,167	44.3	3,802,721,221	254.5
2007	8,476,559,086	18,815,812,935	10,339,253,849	45.1	4,267,995,166	242.3

Schedule of Employer Contributions

Fiscal Year Ending	Valuation Date June 30	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
1998	1996	\$ 508,940,065	\$ 465,350,488	91.4%
1999	1997	508,259,679	612,349,218	120.5
2000	1998	524,815,537	647,441,260	123.4
2001	1999	547,532,673	689,219,756	125.9
2002	2000	537,789,669	566,226,658	105.3
2003	2001	572,226,197	602,231,775	105.2
2004	2002	638,541,074	438,180,343	68.6
2005	2003	619,186,005	484,778,888	78.3
2006	2004	672,555,533	701,340,085	104.3
2007	2005	742,882,002	753,039,657	101.4
2008	2006	800,059,308		
2009	2007	819,638,258		

GASB Statements No. 25 and No. 27

Statement of Plan Net Assets

Assets

Cash and Cash Equivalents	\$ 817,157,942
Securities Lending Collateral	1,448,920,710
Receivables	
Employer Contributions	\$ 29,246,347
Due from PERF	2,098,572
Member Contributions	38,053,905
Due from Lottery Commission	0
Securities Sold	619,425,900
Interest and Dividends	<u>32,567,033</u>
Total Receivables	\$ 721,391,757
Investments	
Equity Securities	\$ 4,340,551,773
Debt Securities	3,893,861,902
Other	<u>480,962,951</u>
Total Investments	\$ 8,715,376,626
Furniture and Equipment	9,560
Insurance Premium Paid in Advance	0
Total Assets	\$ 11,702,856,595

Liabilities

Accrued Benefits Payable	\$ 0
Accrued Wages Payable	128,037
Accrued Liability for Compensated Absences - Current	71,011
Accounts Payable	5,566,770
Due to PERF	0
Securities Lending Collateral	1,448,920,710
Payables for Securities Purchased	<u>1,267,315,577</u>
Total Current Liabilities	\$ 2,722,002,105
Accrued Liability for Compensated Absences - Long-Term	<u>60,491</u>
Total Liabilities	\$ <u>2,722,062,596</u>

Net Assets Held in Trust for Pension Benefits **\$ 8,980,793,999**

GASB Statements No. 25 and No. 27

Statement of Changes in Plan Net Assets

	6/30/2006 thru 6/30/2007
Net Assets at Beginning of Year	\$ 7,791,423,831
Additions	
Contributions	
Member Contributions	\$ 126,194,680
Employer Contributions	723,039,657
Employer Contributions - Pension Stabilization	<u>30,000,000</u>
Total Contributions	\$ 879,234,337
Investments	
Net Appreciation (Depreciation) in Fair Value	\$ 945,150,422
Interest Income	200,435,363
Dividend Income	93,943,883
Securities Lending Income	77,859,483
Less Investment Expense	
Investment Fees	(19,593,644)
Securities Lending Fees	<u>(74,364,137)</u>
Net Investment Income	\$ 1,223,431,370
Other Additions	
Transfers from Other Retirement Funds	\$ 3,840,644
Annuity and Disability Refunds	0
Outdated Benefit Checks	0
Reimbursement of Administrative Expense	<u>0</u>
Total Other Additions	\$ 3,840,644
Total Additions	\$ 2,106,506,351
Deductions	
Annuity and Disability Benefits	\$ 897,676,227
Voluntary and Death Withdrawals	12,901,454
Claims on Outdated Benefit Checks	0
Administrative Expenses	6,044,784
Capital Projects	455,719
Depreciation Expenses	21,052
Transfer to Other Retirement Funds	<u>36,947</u>
Total Deductions	\$ 917,136,183
Change in Net Assets Held in Trust for Pension Benefits	\$ 1,189,370,168
Net Assets at End of Year	\$ 8,980,793,999

Member Data

The tables below summarize the member data used in the valuation. The pages that follow show distributions of the member groups by age and service (for active and inactive vested members) and age and number of years retired (for retired members.) A retired member distribution of pension amounts by year of retirement is also included.

Pre-1996 Account

	Males	Females	Total
Number of Actives	9,674	26,852	36,526
- Average Age	52.8	51.8	52.1
- Average Service	26.0	23.0	23.8
- Average Pay	\$ 70,128	\$ 63,235	\$ 65,060
Number of Vested Inactives	900	2,961	3,861
- Average Age	55.7	55.5	55.6
- Average Service	17.7	16.2	16.5
Number of Nonvested Inactives	2,896	9,818	12,714
Number of Retirees and Beneficiaries	14,229	25,099	39,328
- Average Age	70.9	72.7	72.1
- Average Years Retired	11.4	13.1	12.5
- Average Monthly Annuity	\$ 203	\$ 155	\$ 173
- Average Monthly Pension	\$ 1,414	\$ 1,114	\$ 1,222
Total Number of Members	27,699	64,730	92,429

1996 Account

	Males	Females	Total
Number of Actives	11,014	28,293	39,307
- Average Age	38.5	38.1	38.2
- Average Service	8.8	7.4	7.8
- Average Pay	\$ 54,012	\$ 45,832	\$ 48,124
Number of Vested Inactives	310	850	1,160
- Average Age	50.0	50.9	50.7
- Average Service	15.2	14.4	14.6
Number of Nonvested Inactives	7,000	18,690	25,690
Number of Retirees and Beneficiaries	770	1,155	1,925
- Average Age	64.4	64.7	64.6
- Average Years Retired	5.3	5.2	5.2
- Average Monthly Annuity	\$ 185	\$ 142	\$ 159
- Average Monthly Pension	\$ 1,646	\$ 1,308	\$ 1,443
Total Number of Members	19,094	48,988	68,082

Total

	Males	Females	Total
Number of Actives	20,688	55,145	75,833
- Average Age	45.2	44.7	44.8
- Average Service	16.9	15.0	15.5
- Average Pay	\$ 61,548	\$ 54,306	\$ 56,282
Number of Vested Inactives	1,210	3,811	5,021
- Average Age	54.3	54.5	54.5
- Average Service	17.0	15.8	16.1
Number of Nonvested Inactives	9,896	28,508	38,404
Number of Retirees and Beneficiaries	14,999	26,254	41,253
- Average Age	70.6	72.4	71.7
- Average Years Retired	11.1	12.8	12.2
- Average Monthly Annuity	\$ 202	\$ 155	\$ 172
- Average Monthly Pension	\$ 1,426	\$ 1,122	\$ 1,233
Total Number of Members	46,793	113,718	160,511

Active Members: Pre-1996 Account

By Attained Age and Years of Service

Attained Age	Years of Service to Valuation Date							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
15-19	-	-	-	-	-	-	-	-
20-24	99	-	-	-	-	-	-	99
25-29	315	120	-	1	-	-	-	436
30-34	116	260	165	-	-	-	-	541
35-39	134	161	1,526	786	-	2	-	2,609
40-44	136	111	547	1,770	1,065	7	1	3,637
45-49	92	110	449	973	2,399	1,053	14	5,090
50-54	69	93	490	1,080	1,295	3,008	2,526	8,561
55-59	151	88	387	1,021	1,489	1,508	5,752	10,396
60-64	141	34	118	351	579	536	2,505	4,264
65-69	56	13	26	51	66	69	419	700
70-74	56	10	7	3	7	6	46	135
75-79	17	4	4	3	-	-	6	34
80 & Over	3	6	2	1	1	-	11	24
Totals	1,385	1,010	3,721	6,040	6,901	6,189	11,280	36,526

Average Age: 52.1
Average Service: 23.8

Active Members: 1996 Account

By Attained Age and Years of Service

Attained Age	Years of Service to Valuation Date							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
15-19	7	-	-	-	-	-	-	7
20-24	2,079	1	-	-	-	-	-	2,080
25-29	6,276	2,598	5	-	-	-	-	8,879
30-34	1,898	4,679	1,451	2	1	-	-	8,031
35-39	1,246	1,915	2,356	331	2	-	-	5,850
40-44	957	1,207	899	616	188	3	2	3,872
45-49	864	1,057	891	371	400	134	3	3,720
50-54	537	774	764	363	241	282	173	3,134
55-59	377	497	538	321	193	150	331	2,407
60-64	237	200	165	114	68	58	142	984
65-69	105	62	32	7	9	1	13	229
70-74	56	20	9	-	1	1	-	87
75-79	11	6	2	-	-	-	-	19
80 & Over	4	1	1	-	-	2	-	8
Totals	14,654	13,017	7,113	2,125	1,103	631	664	39,307

Average Age: 38.2
Average Service: 7.8

Inactive Vested Members: Pre-1996 Account

By Attained Age and Years of Service

Attained Age	Years of Service at Termination							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
30-34	-	-	10	-	-	-	-	10
35-39	-	-	168	7	1	-	-	176
40-44	-	-	249	99	9	-	-	357
45-49	-	-	249	142	71	12	5	479
50-54	-	-	333	217	138	86	53	827
55-59	-	-	417	308	198	139	61	1,123
60-64	-	-	342	108	69	34	49	602
65-69	-	-	44	29	4	12	17	106
70-74	-	-	17	1	-	4	4	26
75-79	-	-	8	1	-	-	1	10
80 & Over	-	-	123	15	5	-	2	145
Totals	-	-	1,960	927	495	287	192	3,861

Average Age: 55.6
Average Service: 16.5

Inactive Vested Members: 1996 Account

By Attained Age and Years of Service

Attained Age	Years of Service at Termination							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
30-34	-	-	33	-	1	-	-	34
35-39	-	-	137	3	-	-	-	140
40-44	-	-	108	39	1	-	-	148
45-49	-	-	124	39	21	3	-	187
50-54	-	-	115	58	27	21	4	225
55-59	-	-	125	75	44	21	6	271
60-64	-	-	92	21	16	3	2	134
65-69	-	-	10	3	1	-	-	15
70-74	-	-	3	1	-	-	-	4
75-79	-	-	2	-	-	-	-	2
80 & Over	-	-	-	-	-	-	-	-
Totals	-	-	749	239	111	48	13	1,160

Average Age: 50.7
Average Service: 14.6

Retired Members: Pre-1996 Account

By Attained Age and Completed Years of Retirement

Attained Age	Years of Retirement							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
30-34	5	6	10	3	2	1	-	27
35-39	1	2	6	-	-	-	-	9
40-44	6	14	3	2	1	1	-	27
45-49	20	21	18	10	2	1	-	72
50-54	140	59	37	14	6	2	1	259
55-59	2,812	254	84	45	18	3	4	3,220
60-64	4,229	2,880	281	72	33	6	5	7,506
65-69	1,884	3,579	1,680	272	53	15	6	7,489
70-74	335	1,853	2,739	974	294	34	21	6,250
75-79	75	334	1,917	2,230	713	272	45	5,586
80-84	8	46	292	1,629	1,563	442	213	4,193
85-89	-	10	49	201	1,108	913	447	2,728
90-94	-	3	8	10	125	647	600	1,393
95-99	3	1	-	1	5	66	417	493
100 & Over	-	-	-	-	-	-	76	76
Totals	9,518	9,062	7,124	5,463	3,923	2,403	1,835	39,328

Average Age: 72.1
Average Years Retired: 12.5

Retired Members: 1996 Account

By Attained Age and Completed Years of Retirement

Attained Age	Years of Retirement							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30+	
30-34	-	1	-	-	-	-	-	1
35-39	3	1	-	-	-	-	-	4
40-44	3	-	-	-	-	-	-	3
45-49	6	6	-	-	-	-	-	12
50-54	33	4	-	1	-	-	-	38
55-59	321	33	3	-	-	-	-	357
60-64	444	239	10	-	-	-	-	693
65-69	242	207	38	2	-	-	-	489
70-74	54	95	50	9	2	-	-	210
75-79	6	16	31	26	4	1	-	84
80-84	1	4	1	15	5	-	-	26
85-89	-	1	1	1	1	2	1	7
90 & Over	-	-	-	-	1	-	-	1
Totals	1,113	607	134	54	13	3	1	1,925

Average Age: 64.6
Average Years Retired: 5.2

Retired Members: Pre-1996 Account

By Year of Retirement

Year of Retirement As of June 30	Number	Monthly Pensions	
		Total	Average
Before 1975	1,024	\$ 473,490	\$ 462
1975	224	126,398	564
1976	281	165,161	588
1977	311	188,035	605
1978	398	251,100	631
1979	451	284,570	631
1980	524	331,761	633
1981	511	320,526	627
1982	519	337,066	649
1983	591	381,610	646
1984	671	455,814	679
1985	960	690,220	719
1986	782	578,516	740
1987	919	724,670	789
1988	1,026	861,570	840
1989	821	716,631	873
1990	1,279	1,267,261	991
1991	1,229	1,304,187	1,061
1992	1,108	1,212,802	1,095
1993	1,169	1,370,994	1,173
1994	1,300	1,547,858	1,191
1995	1,639	2,031,088	1,239
1996	1,611	2,038,129	1,265
1997	1,405	1,766,218	1,257
1998	1,740	2,173,084	1,249
1999	1,602	2,112,672	1,319
2000	1,850	2,548,132	1,377
2001	1,810	2,677,160	1,479
2002	2,060	3,158,110	1,533
2003	1,865	3,003,605	1,611
2004	2,091	3,400,279	1,626
2005	1,957	3,271,941	1,672
2006	2,246	3,885,491	1,730
2007	1,354	2,418,734	1,786
Totals	39,328	\$ 48,074,883	\$ 1,222

Retired Members: 1996 Account

By Year of Retirement

Year of Retirement As of June 30	Number	Monthly Pensions	
		Total	Average
1975	1	\$ 276	\$ 276
1981	2	1,252	626
1982	1	900	900
1985	1	923	923
1986	3	1,591	530
1987	9	7,058	784
1988	5	4,532	906
1989	7	5,601	800
1990	13	12,696	977
1991	16	15,061	941
1992	13	15,208	1,170
1993	11	10,949	995
1994	21	23,503	1,119
1995	28	31,883	1,139
1996	41	52,601	1,283
1997	33	38,385	1,163
1998	59	66,295	1,124
1999	65	84,136	1,294
2000	104	126,547	1,217
2001	159	218,229	1,373
2002	220	336,474	1,529
2003	192	285,305	1,486
2004	306	459,918	1,503
2005	307	518,320	1,688
2006	170	248,486	1,462
2007	138	212,437	1,539
Totals	1,925	\$ 2,778,566	\$ 1,443

This schedule may include individuals who retired from the Pre-1996 Account, returned to work, and then retired again (from the 1996 Account).

Closed Group Actuarial Projections

The schedules on the following pages for the Pre-1996 Account were produced by means of an actuarial projection.

Whereas actuarial valuations provide a snapshot of the Retirement Fund as of a given date, actuarial projections provide a moving picture of Retirement Fund activities. The projected active and retired groups are developed from year to year by applying assumptions regarding pre-retirement withdrawal from service, retirements, deaths, and disabilities. Projected information regarding plan activity produces an expected future benefit payment stream.

Projection results are useful in demonstrating changing relationships among key elements affecting system financial activity. For example, the relationship between annual benefits paid and assets will change over time. Projections are not predictions of specific future events and do not provide numeric precision in absolute terms. The future pension benefits shown in the table are estimates. Actual payments will likely differ from the amounts shown, however, understanding the relative growth is critical.

Closed Group Projection: Pre-1996 Account

\$ in Millions

Year Ended June 30	Active Members		Inactive Members	
	Number	Payroll	Number	Pension Benefits Paid
2008	33,691	\$ 2,322.1	44,979	\$ 645.0
2009	31,040	2,258.7	46,669	686.4
2010	28,457	2,181.0	48,305	734.2
2011	25,957	2,091.8	49,845	786.1
2012	23,538	1,991.7	51,228	841.6
2013	21,233	1,884.4	52,447	898.3
2014	19,089	1,775.7	53,451	954.3
2015	17,087	1,664.6	54,261	1,009.7
2016	15,226	1,552.9	54,875	1,063.2
2017	13,488	1,440.3	55,309	1,114.8
2018	11,872	1,329.2	55,555	1,163.6
2019	10,443	1,223.6	55,540	1,208.6
2020	9,158	1,122.7	55,306	1,249.8
2021	8,006	1,027.1	54,870	1,287.1
2022	6,971	936.0	54,244	1,320.4
2023	6,049	849.9	53,447	1,349.3
2024	5,222	767.7	52,494	1,374.0
2025	4,476	688.2	51,403	1,394.7
2026	3,808	612.4	50,189	1,410.9
2027	3,206	539.1	48,855	1,423.1
2028	2,684	471.7	47,395	1,430.0
2029	2,232	410.2	45,822	1,431.6
2030	1,842	353.7	44,144	1,428.4
2031	1,511	303.5	42,386	1,419.5
2032	1,226	257.4	40,575	1,405.6
2033	987	216.9	38,730	1,385.9
2034	788	180.9	36,855	1,361.0
2035	621	149.2	34,950	1,331.4
2036	486	122.4	33,017	1,297.2
2037	376	99.2	31,076	1,259.0

Note: Projections are intended to demonstrate the pattern of future activities and should not be viewed as a prediction of specific dollar amounts in any year.

Closed Group Projection: Pre-1996 Account (Continued)

\$ in Millions

Year Ended June 30	Active Members		Inactive Members	
	Number	Payroll	Number	Pension Benefits Paid
2038	289	\$ 79.9	29,137	\$ 1,217.0
2039	220	63.8	27,214	1,171.8
2040	164	49.9	25,324	1,124.0
2041	121	38.7	23,474	1,074.0
2042	89	29.6	21,678	1,022.3
2043	66	23.0	19,945	969.4
2044	49	18.0	18,282	915.8
2045	36	13.9	16,700	862.2
2046	26	10.4	15,202	808.9
2047	18	7.6	13,790	756.3
2048	12	5.4	12,467	704.9
2049	8	3.6	11,232	654.7
2050	5	2.3	10,086	606.1
2051	3	1.4	9,026	559.3
2052	1	0.7	8,051	514.4
2053	1	0.3	7,157	471.6
2054	-	0.1	6,340	430.9
2055	-	-	5,597	392.4
2056	-	-	4,924	356.2
2057	-	-	4,314	322.3

Note: Projections are intended to demonstrate the pattern of future activities and should not be viewed as a prediction of specific dollar amounts in any year.

Summary of Benefit Provisions

Regular Retirement

Eligibility	Age 65 with ten years service or age 60 with 15 or more years of service or if age is at least 55 and the sum of age plus credited service is 85 or more.
Annual Amount	State pension equal to total service times 1.1% of Average Annual Compensation

Early Retirement

Eligibility	Age 50 with 15 or more years of service
Annual Amount	State pension is computed as regular retirement benefit, but reduced for each month between age at early retirement and attainment of age 65. The age reduction factor is calculated as the sum of the following: <ul style="list-style-type: none">• 1/10 of 1% for each month from age 60 to 65.• 5/12 of 1% for each month from age at early retirement to 60

Deferred Retirement

Eligibility	Ten years of service. Benefit commences at regular or early retirement eligibility.
Annual Amount	Computed as a regular retirement benefit with state pension based on service and Average Annual Compensation at termination.

Disability Retirement

Classroom Disability Benefit:

Eligibility	Five years of service.
Annual Amount	\$125 per month plus \$5 per month for each year of service credit over five years.

Alternative Disability Benefit:

Eligibility	Five years of service and determined to be disabled by the Social Security Administration. Annual verification of Social Security disability is required.
Annual Amount	Computed as a regular retirement benefit using creditable service to the date of disability and without reduction for early retirement. The minimum benefit is \$100 per month.

Summary of Benefit Provisions

Death Before Retirement

Eligibility	15 years of service. Spouse to whom member had been married for two or more years is automatically eligible, or a dependent may be designated as beneficiary.
Annual Amount	Computed as regular retirement benefit but reduced in accordance with a 100% joint and survivor election

Benefit Increases After Retirement

No automatic increases after retirement are provided. Periodically, unscheduled increases have been made.

Average Annual Compensation

Average of highest five years of compensation. Years do not need to be consecutive.

Member Contributions

All Fund members are required by state law to contribute 3% of salary contributions to their Annuity Savings Account. These 3% contributions are generally "picked up" by the employer and contributed on a pre-tax basis on behalf of the employee. Extra voluntary contributions by the member are also possible, but on a post-tax basis. At retirement, there are six alternatives for receiving the proceeds of this account, including lump sums, full and partial rollovers, full and partial annuitization of the balance, and deferred distribution.

Forms of Benefit Payment (State Pension)

The normal form of benefit payment (Option A-1) is a single life annuity with a five-year certain period. There are five optional forms of payment available, as listed below. Additionally, members retiring between ages 50 and 62 may integrate their pension benefit with their Social Security benefit by choosing Social Security Integration (Option A-4) in conjunction with the normal form or any other optional form selected. Optional forms of payment are calculated on an actuarial equivalent basis.

- Option A-2: Straight Life benefit with no certain period
- Option A-3: Modified Cash Refund Annuity (operates in conjunction with the Annuity Savings Account).
- Option B-1: 100% Survivorship
- Option B-2: 66 2/3% Survivorship
- Option B-3: 50% Survivorship

State law provides for actuarially-adjusted and re-calculated benefits based on a new optional form election in the event of the death of the member's spouse after retirement (IC 5-10.2-4-7).

Optional forms of benefit are calculated based on 7.5% interest with a 40%/60% unisex blend of the 1983 Group Annuity Male Mortality table set back three years and the 1983 Group Annuity Male Mortality table set back seven years.

Summary of Actuarial Assumptions and Methods

The assumptions used in this valuation reflect the study of experience covering the period July 1, 1996 through June 30, 2002.

Investment Return Rate	7.5% per year, compounded annually (net after administrative expenses). The 7.5% investment return rate translates to an assumed real rate of return of 3.0% over across-the-board salary increases and 3.5% over price inflation.
Pay Increase Assumption	Sample increases are shown on page 32. The assumption for each consists of a merit and/or seniority increase, 4.0% for price inflation, and 0.5% for real wage growth.
Total Active Member Payroll	Assumed to increase 4.5% annually for purposes of calculating the projected contribution for the 2009 fiscal year.
Price Inflation	4.0% per year. Price inflation is not directly tied to benefits, however, it is a component of the economic model used to determine total wage inflation.
Mortality	
<i>Healthy</i>	1983 Group Annuity Male Mortality Table set back five years for males and seven years for females
<i>Disabled</i>	1983 Group Annuity Male Mortality Table set forward five years for males and three years for females.
Retirement	Sample probabilities are shown on page 30.
Withdrawal	Sample probabilities are shown on page 31.
Disability	Sample probabilities are shown on page 30.
Actuarial Cost Method	Entry Age Normal (level percent of pay) method.
Asset Valuation Method	The Funding Value of Assets recognizes investment gains and losses in equal installments over four years.
Marriage Assumption	100% of members are assumed to be married for purposes of valuing death-in-service benefits. Male spouses are assumed to be three years older than female spouses.
Pay Increase Timing	Beginning of (fiscal) year. Payroll amounts stated in the valuation data are amounts projected to be paid during the current year.
Decrement Timing	Decrements are assumed to occur at the beginning of the year.
Other	Disability and withdrawal decrements do not operate after member reaches retirement eligibility. Only the withdrawal and death decrements operate during the first ten years of service.

Summary of Actuarial Assumptions and Methods

Miscellaneous Adjustments	The calculated liabilities and normal costs were increased by 1% to account for the inclusion of unused sick leave in the calculation of Average Compensation.
Actuarial Equivalence Basis for Optional Forms of Payment	7.5% interest with a 40%/60% unisex blend of the 1983 Group Annuity Male Mortality table set back three years and the 1983 Group Annuity Male Mortality Table set back seven years.
Explicit Expense Load	None
COLA Assumption	1.5% compounded annually on pension portion.
Employee Census and Asset Data	Census and asset information was furnished as of the valuation date by the Fund's Administrative Staff. Although examined thoroughly for reasonableness and consistency with prior years, the data was not otherwise audited by the Actuary.

The actuarial valuation computations were made under the supervision of a Member of the American Academy of Actuaries (MAAA).

Summary of Actuarial Assumptions and Methods

Probabilities of Age and Service Retirement

Regular Retirement			Rule of 85 Retirement			Early Retirement		
Age	Male	Female	Age	Male	Female	Age	Male	Female
						50	0.0100	0.0100
			55	0.1100	0.1100	55	0.0300	0.0300
60	0.1500	0.1500	60	0.1500	0.1500			
65	0.3500	0.3500	65	0.3500	0.3500			
70	1.0000	1.0000	70	1.0000	1.0000			

Probabilities of Disability

Attained Age	Age Based	
	Male	Female
25	0.0001	0.0001
30	0.0001	0.0001
35	0.0001	0.0001
40	0.0001	0.0001
45	0.0002	0.0002
50	0.0005	0.0005
55	0.0009	0.0009
60	0.0010	0.0010

Summary of Actuarial Assumptions and Methods

Probabilities of Withdrawal

Years of Service	Service Based	
	Male	Female
0	0.3000	0.3500
1	0.1700	0.1800
2	0.1100	0.1400
3	0.0900	0.1100
4	0.0700	0.1000
5	0.0600	0.0800
6	0.0500	0.0650
7	0.0450	0.0600
8	0.0400	0.0550
9	0.0400	0.0500

Attained Age	Age Based	
	Male	Female
25	0.0664	0.0950
30	0.0432	0.0720
35	0.0232	0.0430
40	0.0144	0.0260
45	0.0120	0.0200
50	0.0120	0.0200
55	0.0104	0.0180
60	0.0096	0.0140

Summary of Actuarial Assumptions and Methods

Pay Increase Assumption

Years of Service	Merit & Seniority	Base (Economic)	Total
1	11.00%	4.50%	15.50%
5	5.00%	4.50%	9.50%
10	3.50%	4.50%	8.00%
15	2.50%	4.50%	7.00%
20	1.50%	4.50%	6.00%
25	0.25%	4.50%	4.75%
30	0.25%	4.50%	4.75%
35	0.25%	4.50%	4.75%
40	0.25%	4.50%	4.75%

Definitions of Technical Terms

Accrued Service	Service credited under the system that was rendered before the date of the actuarial valuation.
Accrued Liability	The difference between the actuarial present value of future benefit payments and the actuarial present value of future normal costs. Also referred to as “actuarial accrued liability” or “past service liability”.
Actuarial Assumptions	Estimates of expected future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment return, and pay increases. Decrement assumptions (rates of mortality, disability, turnover, and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (pay increases and investment return) consist of the underlying rates in an inflation-free environment plus a provision for a long-term average rate of inflation.
Actuarial Cost Method	A mathematical budgeting procedure for allocating the dollar amount of the “actuarial present value of future benefit payments” between future normal costs and actuarial accrued liabilities. Sometimes referred to as the “actuarial funding method”.
Actuarial Equivalent	One series of payments is said to be actuarially equivalent to another series of payments if the two series have the same actuarial present value.
Actuarial Gain (Loss)	The difference between actual unfunded actuarial accrued liability and anticipated unfunded actuarial accrued liability — during the period between two valuation dates. It is a measurement of the difference between actual and expected experience.
Actuarial Present Value	The single amount now that is equal to a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest and by probabilities of payment.
Amortization	Paying off a present value with periodic payments.
Normal Cost	The portion of the actuarial present value of future benefits that is assigned to the current year by the actuarial cost method. Sometimes referred to as “current cost”.
Unfunded Accrued Liability	The difference between the actuarial accrued liabilities and the actuarial value of assets. Sometimes referred to as “unfunded past service liability” or “unfunded actuarial accrued liability” or simply as “unfunded liability”.

The Actuarial Valuation Process

The **actuarial valuation** is the mathematical process by which a contribution rate is determined. The flow of activity constituting the valuation may be summarized as follows:

- A. Covered Person Data:** Furnished by the Plan Administrator
 - Retired Members and Beneficiaries Now Receiving Benefits
 - Former Employees with Vested Benefits Not Yet Payable
 - Active Members

- B. + Asset Data (Cash and Investments):** Furnished by the Plan Administrator

- C. + Estimates of Future Experience (Actuarial Assumptions):** Established by the Board of Trustees after Consulting with the Actuary

- D. + Funding Method:** The Allocation of Employer Costs to Past Service, Current Service, and Future Service

- E. + Mathematically Combining the Assumptions, the Funding Method, and the Data**

- F. = Determination of:**
 - Plan Funded Status and Employer Contribution Rate

Funding Objective

The funding objective of the ISTRF 1996 Account is to establish and receive contributions that, when invested at the assumed rate of return, will ultimately accumulate assets over each member's working lifetime that will be sufficient to pay expected retirement allowances.

Fund Structure and Funding Arrangements

The Indiana State Teachers' Retirement Fund (ISTRF) is comprised of a two-account structure in compliance with Indiana Code Section 21-6.1-2-2:

- The **Pre-1996 Account** consists of those members who were hired prior to July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date.
- The **1996 Account** consists of those members who were:
 - a. hired on or after July 1, 1995 or
 - b. hired before July 1, 1995 and prior to June 30, 2005, and subsequently served in a position covered by ISTRF were either hired by another school corporation or institution covered by ISTRF, or were re-hired by a covered prior employer.

Characteristics of the Pre-1996 Account

1. Active membership in the Pre-1996 Account continues to decline as members quit, become disabled, die, retire, or incur a change in status as described in (b) above, thereby automatically transferring to membership in the 1996 Account.
2. The pension benefits from the Pre-1996 Account are funded by State appropriations (including short-term contributions of some revenue from the State Lottery). Annuity benefits payable from the Pre-1996 Account are funded by the annuitization of Pre-1996 Account member contributions at the time of retirement.

Characteristics of the 1996 Account

1. As members depart from active service in the Pre-1996 Account, their replacements will become members of the 1996 Account. If the 1996 Account were a stand-alone plan, this pattern of departures and hirings would produce a fairly constant population size. However, overall active membership in the 1996 Account is expected to increase over time due to the following factors:
 - a. As Pre-1996 Account members depart from active service, their replacements will become members of the 1996 Account; and
 - b. The special provisions of Indiana Code Section 21-6.1-2-2 require that any member who changed jobs within the System or who was re-hired within the System during the period July 1, 1995 - June 30, 2005 after a period of absence were moved to the 1996 Account..
2. Pension benefits payable from the 1996 Account are funded by contributions from local school corporations or other institutions that employ covered members. Annuity benefits payable at retirement from the 1996 Account are funded by 1996 Account members.

Plan Structures and Funding Arrangements

Funding Arrangements

Prior to the legislation that established the two-account structure in ISTRF, the pension benefits of the Indiana State Teachers' Retirement System were funded on a pay-as-you-go system. Under this arrangement, amounts were appropriated to meet the current year's pension payment requirements. Pension benefits payable from the Pre-1996 Account continue to be funded on this basis. In 1995, the Pension Stabilization Fund was set up for the Pre-1996 Account.

Since then, some pre-funding progress has been made via State appropriations to this Account. Pension benefits payable from the 1996 Account are funded through percent-of-pay contributions. The Teachers' Retirement Board sets this contribution rate after reviewing the most recent actuarial valuation report. The contribution rate for fiscal 2008 of 7.25% was set by the Board in fiscal 2007.

June 10, 2008

Ms. Julia A. Pogue
Chief Financial Officer
Indiana State Teachers' Retirement Fund
150 West Market Street, Suite 300
Indianapolis, IN 46204-2809

Dear Julia:

Enclosed are 12 copies of the actuarial valuation of active and inactive members and retired lives of ISTRF as of June 30, 2007.

Sincerely,

Alliance Benefit Group



John L. Dowell, FSA, EA, MAAA

/lmw
222-1

Enclosures

cc: Michael Zurek